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STATE FOR EUR/SCE BALIAN
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TAGS: ENRG ECON HR
SUBJECT: NEW GAS PIPELINE ASSURES WINTER SUPPLY

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SENSITIVE BUT UNCLASSIFIED; NOT FOR INTERNET

¶1. (SBU) Summary: The completion of a major new gas pipeline linking Croatia's Adriatic gas fields to the mainland gas distribution system is a major step forward in bolstering the country's near-term energy security. When the pipeline comes on line at the end of the year, domestic gas production will satisfy 70 percent of Croatia's 3.2 billion cubic meter (bcm) annual demand, substantially reducing its reliance on Russian imports and ending chronic winter supply shortages. When the pipeline network is extended to cover the remainder of the country, both its builder, state-owned PlinaCro and the Croatian government believe that Croatia will be able to guarantee the long-term security of its gas supply. End Summary.

Higher Domestic Production

¶2. (SBU) The Croatian government recently announced the completion of a new gas pipeline connecting the east and west of the country. The pipeline runs from the Istrian city of Pula, to Rijeka, Karlovac, through Zagreb and on to Slavonski Brod in Eastern Slavonia. Most importantly, however, is an underwater line built by the state oil and gas company INA connecting its offshore production facilities in the Adriatic to the pipeline.

¶3. (SBU) INA's offshore production, developed jointly with Italian ENI and Edison, will now provide Croatia with an additional 1.1 bcm of gas annually. Supply from these fields has been limited until now by the lack of a direct connection to the Croatian distribution network, so the entire output of the fields went through Italy. INA and its Italian partners share the output of the fields on a 50-50 basis. Proven reserves of currently exploited fields are about 25 bcm. INA expects these fields to reach peak production in 2010. Croatia also has substantial domestic gas production in its continental region. The Pannonian fields, located in the area between Zagreb and the eastern region of Slavonia in what was the bed of the prehistoric Pannonian Sea, produce about 1.2 bcm annually.

Expanded Network Secures Supply

¶4. (SBU) PlinCro, which builds and operates Croatia's entire pipeline network, has plans to extend its pipelines into coastal Dalmatia as far as Dubrovnik and construct a new connection to the Hungarian border near the Slavonian town of Donji Miholjac in the eastern part of the country. According to PlinaCro, extending Croatia's gas network offers the dual benefit of bringing gas to previously un-serviced areas, such as Dalmatia, but also diversifying potential sources of supply. The new connection to Hungary, for example, will enable Croatia to import larger quantities than have been possible through its existing connection from Slovenia. One of the reasons Croatia could not fully use its Adriatic gas was that the Slovenian pipeline, through which all gas entered the system, was already at its saturation point.

¶5. (SBU) In the longer term, the Croatian government has given its support for construction of an LNG terminal in the northern Adriatic with a planned capacity of 10-13 bcm, enough to satisfy Croatia's modest but growing domestic demand and to enable it to play a role in European supply. Currently there are no connections between the Croatian pipeline system and those of Serbia, Bosnia and Montenegro. The system built in the former Yugoslavia supplied Croatia and Slovenia from the northern trunk line from Russia while Serbia and Bosnia received gas from the southern line - a decision Croats came to view as fortuitous during the 1990s war as, unlike in the case of Bosnia, Serbia was never able to deprive Croatia of gas. In the changed environment of present-day southeastern Europe, Croatia views itself as the possible supplier to its southern and eastern neighbors.

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Wary of Gazprom's Downstream Predation

¶6. (SBU) Contacts at both INA and PlinaCro believe that Europe has no realistic alternatives to Russian gas, but want to ensure that Croatia is positioned to benefit from Caspian gas should that source become available. PlinaCro considers that once it completes its bi-directional pipeline throughout Croatia, connections either to NABUCCO or even to eventual Albania pipelines would be relatively easy.

¶7. (SBU) The Croatian gas industry is more concerned about Gazprom's downstream moves for local gas distribution than a disruption of supply. Although PlinaCro is state-owned, the status of municipal gas companies varies with some owned by municipalities themselves, others by the national electric utility HEP and others in private hands. Although thus far there has been little Russian interest in Croatian gas distribution companies, as one contact put it, "sooner or later Gazprom is going to eat us all for lunch, even the small fish like Croatia."

BRADTKE